

# Evaluation of accounting risks during vacation

## 2/26/22

Many workers take a vacation in the summer but accountants usually pick a time with a relatively lower workload. Taking a full vacation tends to be difficult when you are supposed to be filing tax reports, calculating and paying out wages, or closing the month. This article explores replacement possibilities and an appropriate evaluation of accounting risks during accountants' absence.

### Worker absence

When planning vacations, the management team needs to decide how to provide a replacement during worker absence to avoid any adverse impact on current work processes. Here are a few replacement possibilities:

- A new worker is taken on to carry out the responsibilities of the one who is temporarily absent. Summer is the time that companies would take on interns (e.g. last-year students) to help during vacations.
- Another worker is appointed to fill the role of the absent one and is released from their standard responsibilities for this period.
- A worker is not released from their standard responsibilities but additionally does the absent employee's work.
- Accounting responsibilities are outsourced.

### An accounting control procedure

To facilitate the reallocation, combination or transfer of responsibilities, the company should have an accounting control procedure in place covering all the activities done by an accountant. Medium and large companies already have such controls approved at group level. Setting up a system of accounting controls is a bigger challenge for small Latvian companies. For example, if a company has one accountant but the allocation of responsibilities and processes is not described, then more care should be taken to prepare the company for a worker's vacation or other absence.

The initial development of an internal control document requires a big investment of time. Before starting the development of an accounting control system and defining a set of activities relevant to the company, the management should first assess risks. An accounting control system needs a description covering all aspects, including risks and details of responsibility delegation if someone else was responsible for performing some process. Controls should then be defined, with assessments and estimates to find out what controls could mitigate risks in line with the Cabinet of Ministers' Rule No. 877, *Accounting and Bookkeeping*.

Of course, it is impossible to predict all possible conditions, yet based on estimates and assessments of possible risks, we can devise an appropriate accounting control system that will be useful during a vacation as well as any other absence and in daily work.

Below are a few examples of common risk factors during vacations:

- There is no clear understanding of the sequence in which certain processes are to be performed and who is responsible for each of those.

- There is no certainty about the allocation of competences – who is to check and approve invoices, who is to make entries in the books, and who is to do payments.
- There is no backup access to the accounting and other systems.
- There is no authorisation to file tax reports.
- Tax and other reports are filed late, potentially attracting penalties from the authorities (the State Revenue Service, the Central Statistical Office etc).
- There may be a delayed response in detecting and preventing accounting issues.
- The replacement is not competent, or inadequate technology is used.

When it comes to handing over responsibilities, there could be cases where relevant information was not completely disclosed, or the person who took over did not remember everything. This can be avoided by documenting process descriptions. It is important to note that in addition to a vacation, workers may also face an unexpected absence, for instance, due to sickness, something that has been particularly relevant during Covid-19, or any other type of absence. That is why any existing accounting organisation documents (e.g. accounting policy) need updating to reflect possible risks and appropriate controls because the law is silent as to whether a separate internal control document is required.

Companies are currently operating in a very dynamic environment because all Covid-19 restrictions have only just been lifted. Also, conditions associated with the war in Ukraine and sanctions are increasing the workload in some companies. Under the circumstances, many more companies focus on growing their business or other profit-related issues, so they may have no time to develop a control system or other organisation documents. Outsourcing the task of updating your accounting policy or developing a separate accounting control document is an option. Such services are available from PwC's tax management and accounting team. We would be happy to help you prepare documents in order to mitigate risks and facilitate your operations.